



THE CITY OF SAN DIEGO

**COMMUNITY DEVELOPMENT BLOCK GRANT
(CDBG) PROGRAM**

**FISCAL YEAR 2010
REPROGRAMMING HEARING APPLICATION
HANDBOOK**

**CITY PLANNING & COMMUNITY INVESTMENT
ECONOMIC DEVELOPMENT DIVISION**

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I. INTRODUCTION

The purpose of this handbook is to provide an explanation of the Community Development Block Grant (CDBG) Program Reprogramming Hearing Application for the City of San Diego. This handbook is for informational purposes only. It is not intended to be a full disclosure of all applicable federal, state or local rules, regulations or reporting requirements.

The CDBG Entitlement Communities Program provides federal assistance from the U.S. Department of Housing and Urban Development (HUD) to nearly 1,000 of the largest localities in the country. The statutory primary objective of the CDBG Program is the development of viable urban communities, principally for low/moderate income persons, through:

1. Decent housing
2. Suitable living environment
3. Expanded economic opportunity

Since 1974, the CDBG Program has provided a flexible source of annual funding to communities nationwide. The program offers local governments, with citizen participation, the opportunity to improve development priorities, provided that these projects meet one of three national objectives:

1. Benefit low/moderate-income (LMI) persons,
2. Prevent or eliminate slums and blight, OR
3. Meet an urgent need.

The City of San Diego has been receiving CDBG funding from HUD since 1975. The City has the authority to carry out all of its CDBG-related activities or award some or all of the funds to private or public nonprofit organizations, as well as, for-profit entities. The City has used these funds to revitalize neighborhoods, expand affordable housing and economic opportunities, and improve community facilities and services that benefit low/moderate income persons. The City must use at least 70% of the entitlement for activities that either directly benefit low/moderate-income persons or serves an area where the majority of the residents are low/moderate-income.

Regardless of the eligibility criteria, it should be noted that the City has no designated slum or blighted areas and no Urgent Needs designated by the Federal Emergency Management Agency (FEMA).

II. GENERAL ELIGIBILITY

For the purposes of this application process, the applicant's proposed CDBG activity must comply with an Eligible Activity **AND** a National Objective as detailed below.

A. Eligible Activities. The following criteria should be used to determine whether a CDBG-assisted activity complies with one of the basic eligible activities as required.

- **Acquisition.** May acquire real property in whole or in part by purchase, long-term lease, donation, or otherwise (including land, air rights, easements, water rights, rights-of-way, buildings and other real property improvements, and other interests in real property) for any public purpose. In order to be considered acquisition, a permanent interest in the property must be obtained. Long-term leases are considered to constitute a permanent interest for this purpose, if the lease is for a period of 15 years or more.
- **Disposition.** May pay costs incidental to disposing of real property acquired with CDBG funds, as long as after disposition, the property still meets a CDBG national objective. The property may be disposed through sale, lease, donation, or otherwise. Funds may also be used to pay reasonable costs of temporarily managing such property, until final disposition is complete.
- **Public Facilities and Improvements.** May acquire, construct, reconstruct, rehabilitate, or install public facilities and improvements. (Activities under this paragraph may be directed to the removal of material and architectural barriers that restrict the mobility and accessibility of elderly or severely disabled persons to public facilities and improvements). In the CDBG Program, public facilities and public improvements are broadly interpreted to include all improvements and facilities that are either publicly owned or that are traditionally provided by the government, or owned by a nonprofit, and operated so as to be open to the general public. This would include neighborhood facilities, firehouses, public schools, and libraries. Public improvements include streets, sidewalks, curbs and gutters, parks, playgrounds, water and sewer lines, flood and drainage improvements, parking lots, utility lines, and aesthetic amenities on public property such as trees, sculptures, pools of water and fountains, and other works of art. The regulations specify that facilities that are designed for use in providing shelter for persons having special needs are considered to be public facilities (and not permanent housing), and thus are covered under this category of basic eligibility. Such shelters would include nursing homes, convalescent homes, hospitals, shelters for victims of domestic violence, shelters and transitional facilities/housing for the homeless, halfway houses for run-away children, drug offenders or parolees, group homes for the developmentally disabled, and shelters for disaster victims.
- **Clearance.** May be used for demolition of buildings and improvements; removal of demolition products (rubble) and other debris; physical removal of environmental contaminants or treatment of such contaminants to render them harmless; and movement of structures to another site. Demolition of HUD-assisted housing units may be undertaken only with the prior approval of HUD.
- **Privately Owned Utilities.** May use CDBG funds to acquire, construct, reconstruct, rehabilitate and install the distribution lines and related facilities for privately owned utilities.
- **Direct Financial Homeownership Assistance.** May provide financial assistance to low- or moderate-income households to assist them in the purchase of a home. The specific purposes for which financial assistance using CDBG funds may be provided are as follows:
 - (1) subsidize interest rates and mortgage principal amounts, including making a grant to reduce the effective interest rate on the amount needed by the purchaser to an affordable level;

- (2) finance the cost of acquiring property already occupied by the household at terms needed to make the purchase more affordable;
- (3) pay all or part of the premium (on behalf of the purchaser) for mortgage insurances required by up-front private mortgagee;
- (4) pay any or all of the reasonable closing costs associated with the home purchase on behalf of the purchaser; or
- (5) pay up to 50 percent of the down payment required by the mortgagee for the purchase on behalf of the purchaser.
- **Microenterprise Assistance.** A microenterprise is a business having five or fewer employees, one or more of whom owns the business. May facilitate economic development through the establishment, stabilization and expansion of microenterprise businesses. This category authorizes the use of CDBG funds to provide financial assistance of virtually any kind to an existing microenterprise or to assist in the establishment of a microenterprise. It also authorizes the provision of:
 - (1) technical assistance to a new or existing microenterprise or to persons developing a microenterprise, such as advice and business support services; and
 - (2) general support to owners of microenterprises or to persons developing a microenterprise, which could include, but not limited to, child care, transportation, counseling, and peer support programs.
- **Rehabilitation.** May be used to finance the costs of rehabilitation as detailed below.
 - (1) Eligible types of property are:
 - (a) residential property, whether privately or publicly owned. This includes manufactured housing, when such constitutes part of the community's housing stock;
 - (b) commercial or industrial property, but where such property is owned by a for-profit, rehabilitation under this category is limited to exterior improvements of the building and correcting code violations; and
 - (c) nonprofit-owned, nonresidential buildings and improvements that are not considered to be public facilities or improvements.
 - (2) Eligible types of assistance are:
 - (a) costs of labor, materials, supplies and other expenses required for the rehabilitation of property, including the repair or replacement of principal fixtures and components of the existing structures (e.g., the heating system);
 - (b) grants, loans, loan guarantees, interest supplements and other forms of financial assistance may be provided under this category;
 - (c) loans for refinancing existing indebtedness secured by a property being rehabilitated with CDBG funds, if such refinancing is determined by the grantee to be necessary or appropriate to achieve its community development objectives;
 - (d) assistance to private individuals and entities to acquire for the purpose of rehabilitation and to rehabilitate properties for use of resale for residential purposes;
 - (e) installation costs of sprinkler systems, smoke detectors and dead bolt locks, and other devices for security purposes;
 - (f) the costs of initial homeowner warranty premiums and, where needed to protect the City's interest in properties securing a rehabilitation loan, hazard insurance

premiums, as well as flood insurance premiums for properties covered by the Flood Disaster Protection Act;

- (g) costs required to increase the efficient use of water and improvements to increase the efficient use of energy in structures such means as installation of storm windows and doors, insulation, and modification or replacement of heating and cooling equipment;
 - (h) costs of connecting existing residential structures to water distribution lines or local sewer collection lines;
 - (i) costs of acquiring tools to be lent to owners, tenants and others who will use the tools to carry out rehabilitation;
 - (j) costs to remove material and architectural barriers that restrict the mobility and accessibility of elderly and severely disabled persons to building and improvements that are eligible for rehabilitation under this category;
 - (k) the costs of installation or replacement of landscape materials, sidewalks, and driveways when incidental to other rehabilitation of the property;
 - (l) the conversion of a closed building from one use to another (e.g., the renovation of a closed school building to residential use);
 - (m) costs of preserving or restoring properties of historic significance, whether privately- or publicly-owned, (historic properties are those sites or structures that are either listed in or eligible to be listed in the National Register of Historic Places, listed in State or local inventory of historic places, or designated as a State or local landmark by appropriate law or ordinance);
 - (n) the cost of evaluating and treating lead based paint whether alone or in conjunction with other rehabilitation;
 - (o) staff costs and related expenses required for outreach efforts for marketing the program, rehabilitation counseling, screening potential applicant households and structures, energy auditing, preparing work specifications, loan underwriting and processing, inspections, and other services related to assisting owners, tenants, contractors, and other entities who are participating or seeking to participate in rehabilitation-eligible activities; and
 - (p) in some cases, where a business is conducted in a residential unit, it may be necessary to make improvements to the residence in order to conduct the business, such as a child care business, where local requirements dictate that modifications be made.
- **Special Economic Development Activities.** May be used for the following special economic activities:
 - (1) Commercial or industrial improvements carried out by the City or public or private nonprofit subrecipient, including the acquisition, construction, reconstruction, rehabilitation or installation of commercial or industrial buildings, structures, and other real property equipment and improvements.
 - (2) Assistance to private, for-profit entities for an activity determined by the City to be appropriate to carry out an economic development project. This assistance may include, but not limited to, grants, loans, loan guarantees, interest supplements, technical assistance, or any other form. In selecting businesses to assist, the City shall minimize, to the extent practicable, displacement of existing businesses and jobs in neighborhoods.

- (3) Economic development services in connection with the above subcategories, including but not limited to:
- (a) outreach efforts to market available forms of assistance;
 - (b) screening of applicants;
 - (c) reviewing and underwriting applications for assistance;
 - (d) preparation of agreements;
 - (e) management of assisted activities; and
 - (f) the screening, referral, and placement of applicants for employment opportunities generated by CDBG-eligible economic development activities. The cost of providing necessary job training for persons filling those positions may also be provided.

B. Eligible Activities for City Department Use Only. The following criteria should be used to determine whether a City Department CDBG-assisted activity complies with one of the eligible activities listed below.

- **Code Enforcement. (City Department Only)** The provision involves the payment of salaries and overhead costs directly related to the enforcement of state and/or local codes. CDBG funds may be used for code enforcement only in deteriorating or deteriorated areas where such enforcement, together with public and private improvements, rehabilitation, or services to be provided, may be expected to arrest the decline of the area. CDBG funds may be used to pay the salaries of inspectors enforcing codes in a blighted area being renewed through comprehensive treatment.

C. Ineligible Activities. The following are not CDBG eligible activities: Buildings for the general conduct of government (e.g., city hall).

1. General government expenses.
3. Political activities.
4. New housing construction, except under certain conditions.
5. Income payments.

D. Exception. The following activities may not be funded with CDBG funds, unless authorized as a special economic development activity, public services, interim assistance, or program administration:

1. Purchase of construction equipment, fire protection equipment or furnishings and personal property.
2. Operating and maintenance expenses (of public facilities, improvements and services).

E. National Objectives. The following criteria should be used to determine whether a CDBG-assisted activity complies with the following national objective as required:

Benefit to Low/Moderate Income Person. Activities meeting one of the following criteria will be considered to benefit low- or moderate-income person, unless there is substantial evidence to the contrary.

- **Area Benefit Activities.** An activity that benefits all residents in a particular area, where at least 51% of the residents are low- or moderate-income persons. Such an area need not be coterminous with census tracts or other officially recognized boundaries, but the entire area must be served by the activity. An activity that serves an area that is not primarily residential in character shall not qualify under this criterion. CDBG regulations required documentation of area boundaries served.
- **Limited Clientele Activities.** An activity which benefits a limited clientele, at least 51% of whom are low- or moderate-income persons or benefit a client presumed to be low- or moderate-income persons. Presumed benefit clients are abused children, battered spouses, elderly persons (age 62 years or older), adults meeting the Census Bureau's current Population Reports definition of "severely disabled", homeless persons, illiterate adults, persons living with AIDS, and migrant farm workers. CDBG regulations require the subrecipient to document the demographics and income levels of clientele provided such activities.
- **Housing Activities.** An activity carried out for the purpose of providing or improving permanent residential structures which, upon completion, will be occupied by 51% low- or moderate-income households. CDBG regulations require the subrecipient to document number of households served, number of units completed and demographics and income level of the household occupying the unit.
- **Job Creation or Retention Activities.** An activity designed to create or retain permanent jobs, where at least 51% of the jobs, computed on a full time equivalent basis, involve the employment of low- or moderate-income persons. CDBG regulations require the subrecipient to document one of the following:
 - (1) for an activity that creates jobs, the recipient must document that at least 51% of the jobs will be held by, or will be available to, low- or moderate-income persons, and
 - (2) for an activity that retains jobs, the recipient must document that the jobs would have been lost without CDBG assistance and that either both the job is known to be held by a low- or moderate-income person or the job can reasonably be expected to turn over within the following two years and that steps will be taken to ensure that it will be filled by, or made available to, a low- or moderate-income person upon turnover.

III. APPLICATION PROCESS

The FY 2010 Reprogramming Hearing Applications are available July 13, 2009 and due to the City by August 11, 2009 at 5:00 pm. A mandatory application workshop is scheduled for July 22, 2009 at 10 am and 1:30 pm at the War Memorial Building, Balboa Park. **All applicants must attend this workshop in order to be eligible to submit an application.** Faxed, e-mailed, incomplete and/or late applications will not be accepted. These applications will be returned to the applicant and will not be forwarded to Mayor and Council for review. City staff will review all applications for eligibility and will provide notification to applicants of any eligibility issues. **Only eligible applications will be forwarded to Mayor and Council for review.** Eligible

applications will be catalogued and distributed to the Mayor and City Council in August/September 2009. Mayor and Council will submit funding recommendations to the CDBG office in September/October 2009. The public review and comment period for funding recommendations will be conducted in September/October 2009. A public hearing will be scheduled for September/October 2009 to adopt the funding recommendations.

IV. FUNDING PROCESS

Applicants will be notified of funding allocations October 2009. An allocation of CDBG funds does not authorize the implementation of project services or expenditure accrual. Only an executed contract or memorandum of understanding (MOU) with the City of San Diego authorizes these activities. **Any project services provided or expenditures accrued prior to a contract/MOU execution date will not be eligible for reimbursement through CDBG funds.** Funds are provided on a reimbursement basis, which requires submittal of supporting documentation of all expenses incurred. City staff will review such documentation for eligibility and completeness prior to processing a reimbursement request.

V. CONTRACTING PROCESS

A mandatory contract workshop will be scheduled, and **funded applicants must attend the contract workshop prior to contract execution. All funded applicants are required to submit a contract or Memorandum of Understanding (MOU) packet to the City of San Diego.** Once a contract/MOU packet is submitted and verified as complete and eligible for funding by City staff. It is forwarded to the appropriate City department at which time a project manager is assigned. The project manager will contact the funded applicant within three to four weeks in order to start the contract/MOU negotiation and execution process. **The City's CDBG contract boilerplate is not subject to revision.** A National Environmental Policy Act (NEPA) review must be completed for all funded projects prior to contract/MOU execution. The project manager will initiate this process described below in the Environmental Clearances section.

VI. ENVIRONMENTAL CLEARANCES

All funded projects will require environmental clearance from the City's Development Services Department (DSD). DSD issues certain discretionary permits and provides environmental assessments as required under the California Environmental Quality Act (CEQA) and the National Environmental Policy Act (NEPA). All CDBG projects must undergo environmental review in accordance with NEPA. DSD will determine the level of environmental processing required. Depending on the type of document, a 20 to 45 day public comment period may be required within the environmental review process. The project and its associated permits may also require approval from other City bodies such as the Planning Commission, Park and Recreation Board, etc.